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**SCOTT M. HENDERSON**  
VICE PRESIDENT AND TREASURER

513-762-4911

March 12, 2004

Ms. Jennifer J. Johnson  
Secretary, Board of Governors  
Federal Reserve  
20<sup>th</sup> Street & Constitution Avenue NW  
Washington, DC 20551

Dear Ms. Johnson:

The Kroger Co. is one of the nation's largest grocery retailers. We utilize Return Check Consolidation (RCC) services. Two central aspects of Check 21, and the standards that will govern its implementation, concern our organization. Specifically, we are concerned about:

1. The image quality of Substitute Checks as defined by Check 21, and
2. The flexibility to route returned checks to a bank other than the bank of first deposit (BOFD) under Check 21.

Both will have an impact on our ability to detect and deter check fraud. We ask the Federal Reserve to adopt the positions outlined below and to serve as an advocate as the final rules and standards for Check 21 are written and implemented.

#### **Image Quality of Substitute Checks**

RCC allows Kroger to receive returned check information several days sooner than with traditional returned check processing methods. Check fraud affects everyone and the Federal Reserve should support efficient processes to help minimize this cost.

We depend on high-quality check images, generated by using gray scale imaging technology, to capture the wealth of information that resides on the back of the check. Lower resolution black and white imaging technology, while adequate for capturing requisite information from the *front* of a check, sacrifices information vital to our audit and fraud detection processes located on the *back* of check. The loss of this information would prevent us from effectively reducing check fraud.

Without a mandate under Check 21 to use gray scale imaging technology to capture information on the backs of checks, there will likely be an increase in check fraud and adjustments within the banking industry. *We urge you to support Check 21 standards that provide for gray scale imaging technology to capture the information from the backs of checks.*

**Flow of Returned Checks**

RCC services today allow us to redirect returned checks to a bank other than the BOFD. Centralizing returned check processing in this way greatly enhances the efficiency and speed of returned check processing and our ability to detect and mitigate check fraud.

To preserve the flow of returned checks allowed by RCC, all parties processing Substitute Checks, particularly electronic representments of checks, under Check 21, must be required to support a standard method of routing returned checks to a non BOFD bank. *We believe the success of Check 21 depends on preserving the flexible flow of returned checks provided for in the current RCC environment and we strongly encourage the Federal Reserve to adopt this position.* If Check 21 standards for returned check flow compromise this flexibility, the pace of returned check flow will slow, our costs will increase substantially, and we will experience increasing check fraud.

**Summary**

RCC is an example of successful innovation in the banking system that has removed hundreds of millions of dollars of fraud from the check processing system over the last six years. Check 21 has the potential to expand those benefits even more by speeding the flow of returned checks with high resolution gray scale images and returned check routing flexibility. We ask that you support the standards for image quality and returned check flow proposed above.

Sincerely,



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